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Trading in Soviet Ruble Bank Notes on Western Money MarketsSummary

There is little evidence to suggest an underground trading of Soviet ruble bank notes on western money markets. The Soviet ruble, a non-convertible paper currency effectively insulated from foreign influences by Soviet government fiat, has since 1926 remained unquoted -- and generally unwanted -- on western exchanges. Soviet bank notes, appearing in Vienna and Swiss money markets (imported, in part, by expanding East-West tourist and delegation exchanges) represent only a trickle, possibly less than 100,000 rubles a month, and find few buyers even at \$US 0.025 -- a discount of 75 percent from the official non-commercial rate. The diplomatic community, for whom the discounted rubles available in free world markets offer a solution to the high cost of living in the Soviet capital, and to a lesser extent economists and curiosity seekers, appear to compose the only discernible market for the displaced Soviet rubles.

1. Status of the Soviet Ruble.

The ruble bank note has, at least since 1926, remained a purely domestic currency divorced from the fluctuations of prices and currencies in foreign markets. The rapid depreciation of the ruble on foreign monetary exchanges prior to 1926 led to a series of governmental decrees prohibiting the export (decree of 9 July 1926)

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and the import (decree of 21 March 1928) of ruble bank notes, thus making the ruble a completely internal currency.

The arbitrary exchange value set for the ruble by government fiat has little practical significance except for foreigners visiting the Soviet Union who wish to convert their own currencies into Soviet rubles. From June 1937 to March 1950 the ruble was officially in terms of foreign currencies by declaring 5.3 rubles equal to one dollar and then establishing the ruble values of other currencies in terms of their parities with the U.S. dollar. By a decree of 28 February 1950, the Soviet ruble was shifted to a gold base on the premise that a series of Soviet price reductions had raised the actual value of the ruble above that indicated by prevailing exchange rates, and because allegedly the American dollar had proved to be an unstable currency. The gold content of the ruble was declared equal to .222168 grams of pure gold; and the official exchange rate between the dollar and the ruble was changed from the prevailing 5.3 rubles to the dollar to 4 rubles to the dollar. The preferential diplomatic exchange rate, which had hitherto been used as compensation for the fictitious value of the ruble in terms of foreign exchange and had been arbitrarily fixed at 12 rubles for the dollar until 1948, then at 8 rubles, and in March 1950 at 6 rubles, was declared discontinued as of 1 July 1950. On 1 April 1957 the Soviet government introduced special ruble premiums

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of 150 percent in non-commercial exchanges with most free world currencies. As a result of the new rates, American tourists in the USSR, for example, now receive 10 rubles for each dollar exchanged, compared to 4 previously. The ruble remains, however, a purely domestic currency, the export and import of which are prohibited by law.*

2. The Ruble and Foreign Money Markets, November-December 1955.

It was not without some surprise, then, that western observers reported at the end of 1955 the sudden appearance of thousands of ruble bank notes on free world money markets -- the first time since the currency reform of 1947** that any appreciable quantity of Soviet money had been openly available outside the USSR. An estimated 250,000 rubles worth of bank notes in 1, 5, 25, 50 and 100 denominations reportedly reached western nations during the period November-December 1955. Approximately 100,000 of these reached the United States where they were disposed of by reputable currency dealers at a third to one-half their official values.

* The foreign trade of the Sino-Soviet Bloc is conducted in terms of a foreign trade ruble, which is purely an accounting unit used in bilateral accounts, and which has a higher purchasing power than the internal ruble.

** In response to inflationary pressures, all money owned by Soviet citizens was ordered exchanged for the new, differently designed 1947 rubles at the rate of 10 old rubles for one new ruble. As a consequence of the monetary reform, rubles held outside the USSR were rendered virtually worthless.

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The sudden appearance -- and equally sudden cessation -- of these sales, have left the whole incident shrouded in mystery. The source of the ruble notes is still unknown. It may be presumed that some communist official(s) transferred from the USSR to Western Europe (Vienna and Berlin appeared to be the chief centers through which the rubles passed to the West) and desirous of purchasing more consumer luxuries than the stringent Soviet exchange controls would have permitted, ran the considerable risk of smuggling them out of the country to get what hard currencies they would bring on free world markets. At the tremendous discounts at which these rubles were presumably sold, Western buyers at first were not difficult to find. Curiosity seekers, numismatists and prospective tourists to the USSR unaware of Soviet exchange restrictions, could well have absorbed the relatively negligible quantities involved.

There is perhaps a further explanation for the sporadic appearance of Soviet rubles in the West. Despite Soviet protestations to the contrary, a small but active black market flourishes in many of the larger cities of the USSR. Chronic shortages of consumer goods and repeated rumors of impending ruble devaluations have contributed to a domestic loss of confidence in the ruble which has resulted in exorbitant prices for hard currencies in principal cities of the USSR. Thus the cost of 100,000 rubles in the Moscow black market in November 1955 (at the rate of 20 rubles per dollar) was approximately \$5,000.

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In Western money markets, 100,000 rubles sold for \$12,000 (at the rate of one ruble equals 12 cents). The spread of \$7,000 per 100,000 rubles could have been wide enough to have lured two or 3 black market middlemen into the operations.

3. Prospects for Future Ruble Trading in Western Markets.

Since 1947 (with exception of the period November-December 1955) the volume of transactions in ruble bank notes outside of the USSR has been negligible. There is however little evidence to suggest any current increase in the flow of Soviet rubles to free world money markets. First, there appears little substance to the theory that the Soviet government has in the past, or is now, using free world money markets as a means of obtaining foreign currencies with rubles sold clandestinely by its representatives there. Even if 100,000 rubles were sold each month (for which recent history offers only tenuous evidence) they would net the USSR only about \$3,000 worth of Western currency at the current rate -- a paltry sum to a government which readily and openly sold almost half a billion dollars worth of gold in recent years when it needed foreign exchange. There is, in fact, some indication that the Soviet government has been seriously concerned about the blow to its prestige implicit in the sharp drop of the free market value of the ruble in recent years. Shortly after the appearance of rubles in western money markets Moscow labelled a "crude invention" the allegation that Soviet currency was brought into circulation by

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Soviet institutions abroad and warned prospective tourists against purchasing the discounted rubles. The Soviet government "stated that the export and import of Soviet currency is regarded as smuggling", and that "any Soviet currency found during attempts to bring it across the state frontiers of the USSR is subject to confiscation". "Those guilty of transgressing the rules laid down by law", the announcement continued ominously, "are punishable under the criminal law." There also appears to be a renewal of the practice of searching the baggage of at least some foreigners leaving the Soviet Union in an apparent effort to find rubles foreigners may have bought cheaply in the Soviet Union for foreign currency.

Second, while black market transactions in the USSR normally do not exceed a few million dollars a year, trading was reported to have soared to unprecedented heights after the Satellite uprisings and the Soviet government's repudiation of its internal debt. In mid-March 1957 the ruble reached its lowest level since 1950 and the domestic black market listed the dollar at more than 33.00 rubles, a discount of more than 80 percent from the basic official rate. Soviet bank notes offered at the same time in Swiss or American markets found no buyers at US \$0.025, a parity of 40.00 rubles to the dollar. Thus, with little western demand and the price spread between black market and free market prices negligible, there appears little motivation for the considerable risk involved in smuggling rubles out of the Soviet Union.

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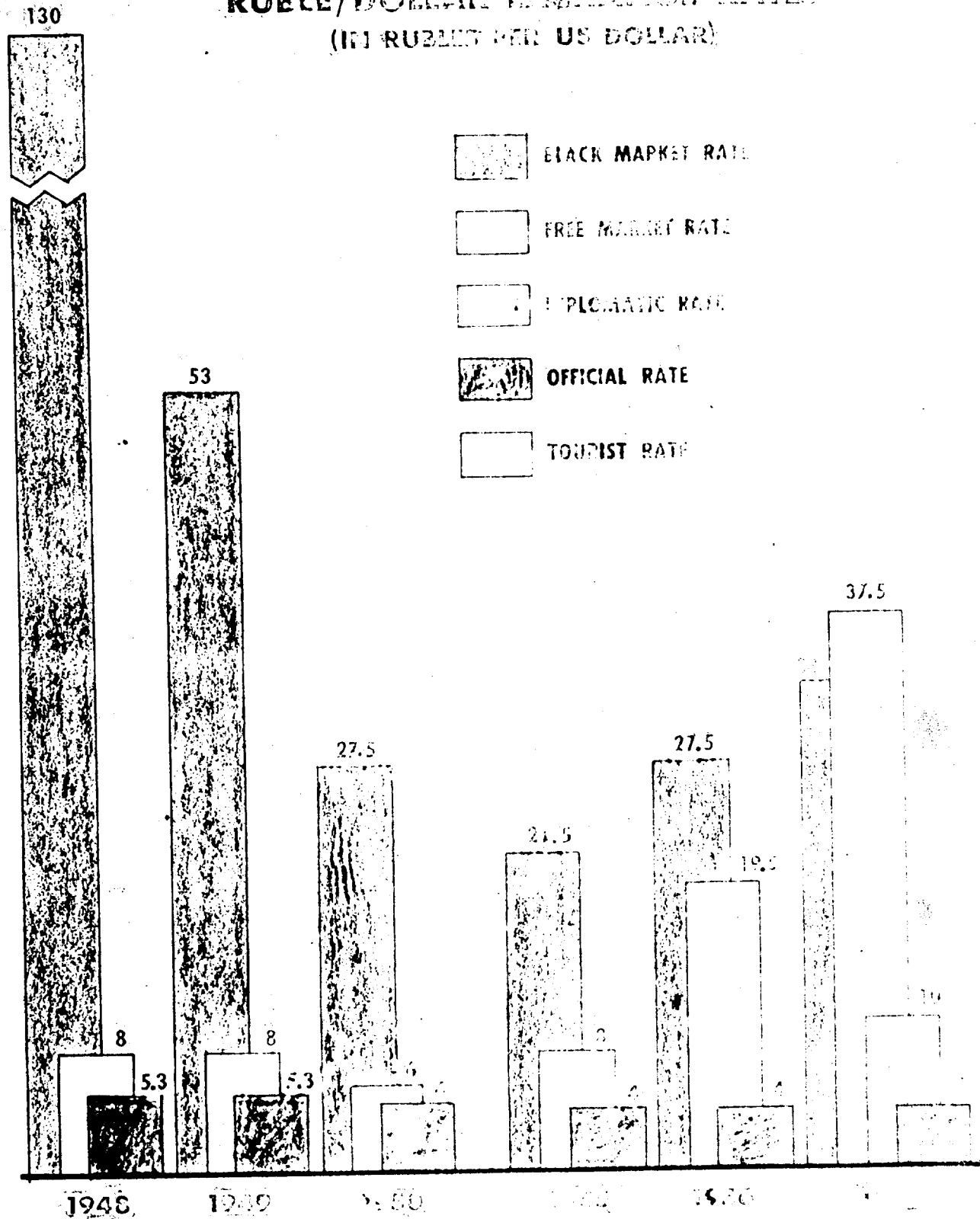
Finally, whatever the motives behind the partial devaluation of the ruble in April 1957 which created a "tourist" rate of 10 rubles per dollar, the results of the Soviet move are clear. The premium rates are more favorable than the official rates in effect between 1937 and 1950 when the dollar exchanged for 5.3 rubles, and the special diplomatic rate of 6 rubles per dollar which was abolished in 1950. The new rate has thus eased the economic pressure on the foreign diplomatic community and has made the USSR more accessible to foreign tourists. As a consequence of the move, the motivation for black market dealings in rubles by tourists and diplomats to cheapen expenditures in the USSR has, to some extent, been vitiated.

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RUBLE/DOLLAR EXCHANGE RATES (IN RUBLES PER US DOLLAR)



- Note: Black market (internal USSR) rates as of 31 March for 1957; as of 31 December for other years. Free market (Free World) rates as of April for each available year. Blackmarket and Free market rates are approximate.

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